



U.S. Department of Justice

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**FOR IMMEDIATE RELEASE
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PRESS RELEASE
***FORMER TOP OFFICERS OF COMPANY
CHARGED IN FEDERAL INDICTMENT
WITH CONSPIRACY, MAKING FALSE STATEMENTS
TO ACCOUNTANT, SECURITIES FRAUD***

SALT LAKE CITY – A federal grand jury returned a five-count indictment Wednesday afternoon charging Frances M. Flood and Susie Strohm, former corporate officers at ClearOne Communications, Inc., with conspiracy, making false statements to an accountant and securities fraud.

Summons will be issued to Flood and Strohm to appear for an arraignment in federal court. At the time of the conduct alleged in the indictment, Flood was the chief executive officer and president of ClearOne Communications, Inc. Strohm held the position of chief financial officer. She also was controller and vice president of finance.

“It is the alleged specific conduct of these two co-conspirators, who are no longer working at the company, which is at issue here,” U.S. Attorney for Utah Brett L. Tolman said today. “ClearOne Communications, Inc. is not charged in the indictment,” Tolman said.

According to the indictment, in early 2001, ClearOne sold many of its products through sales representatives. In June 2001, according to the indictment, Flood changed that practice and ClearOne began shipping its products to distributors and others on a consignment basis. ClearOne then labeled the shipments as sales in order to falsely increase revenue and meet earnings per share forecasts. According to the indictment, ClearOne persuaded its distributors to accept products they did not order by promising distributors they need not pay for the excess products until the distributors actually sold them – turning what appeared to be a sale to a distributor into a consignment arrangement.

The indictment also alleges that the defendants concealed the existence of these side agreements from ClearOne's auditors because these side agreements impacted the way ClearOne's auditors viewed the transactions.

As examples, the indictment alleges that in June 2002, one of ClearOne's distributors ordered \$328,000 worth of products from ClearOne, but ClearOne sent approximately \$1.2 million worth of products, including a 10-year supply of remotes, an unlimited supply of accumikes, and a 12-year supply of audio units. On another occasion in June 2002, ClearOne shipped \$500,000 worth of equipment to an individual who was not a ClearOne distributor in an effort to meet earnings per share projections. This individual was enlisted to take the products as a favor even though he had no intention of selling the products. The indictment also alleges that on June 29, 2002, ClearOne shipped equipment worth \$1,139,763.75 to a company in Australia that took the product as a favor to ClearOne.

The indictment also alleges that in August 2002, ClearOne announced record fourth quarter earnings. The indictment alleges the announcement was false and misleading because it included as sales the three shipments described above.

The indictment alleges the defendants told distributors that if they were contacted by stock analysts, they were not to divulge the pay-as-you-go payment terms.

The potential penalties for the charges in the indictment are up to five years in prison and a \$250,000 fine for the conspiracy count and up to 20

years and a \$5 million fine for each count of making a false statement to an accountant and securities fraud.

Defendants charged in indictments are presumed innocent unless or until proven guilty in court.

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